Docket No. 00-0494
Staff Exhibit 1
REVISED

DIRECT TESTIMONY

OF

ERIC P. SCHLAF

ENERGY DIVISION

ILLINOIS COMMERCE COMMISSION

November 3, 2000

Q. Please state your name and business address.

A. My name is Eric P. Schlaf. My business address is 527 East Capitol Avenue, Springfield, Illinois, 62794-9280.

Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission") as an Economist in the Energy Division. My primary responsibility is to provide recommendations to the Commission about issues connected to the implementation of the "Electric Service Customer Choice and Rate Relief Law of 1997" (220 ILCS 5/16).

Q. Please state your educational background and professional experience.

A. I obtained a B.A. in 1982 from the University of Illinois at Champaign-Urbana. I received an M.A. in Economics in August 1984 and a Ph.D. in Economics in June 1991 from the University of Illinois at Chicago.

I joined the Commission in March 1990, serving in the Least-Cost Energy Program. In March 1992, I moved within the Commission to the Office of Policy and Planning. The Office of Policy and Planning was subsequently merged into the Energy Division. I have also taught numerous courses in economics and statistics at the University of Illinois at Chicago, Roosevelt University, and the University of Illinois at Springfield (formerly Sangamon State University).

Q. Have you testified about electric utility industry issues in other dockets before this Commission?

A. Yes, many times. Most recently, I testified in each of the 1999 delivery services tariffs dockets in which the tariffs under review in this docket were reviewed by the Commission.

Q. What is the purpose of Staff's direct testimony in this proceeding?

A. The purpose of Staff's direct testimony is to discuss the topics listed in Appendix of the Interim Order. Mr. Lazare will address the issues listed under "Other Tariff Issues" that concern the structure and formatting of delivery services tariffs. Mr. Lazare will also address Item (7) of "PPO Tariff Issues", which concerns the fees related to Power Purchase Option "Assignment". I will address each of the other issues listed in the Appendix.

Summary Of Testimony

Q. Please summarize your conclusions and recommendations discussed in this testimony.

A. I have reached the following conclusions:

1. The circumstances in which customers are entitled to an individual transition charge calculation are clearly stated in ComEd's transition charge tariffs and Illinois Power's tariffs. AmerenCIPS's Rider TC - Transition Charge tariff should more clearly identify when customers are entitled to an individual transition charge calculation.
2. A delivery customer should be eligible for Default Service (now called Interim Supply Services) "(ISS") in circumstances in which the customer has lost its source of supply.
3. ISS tariffs should state that customers placed on Interim Supply Service will be provided prompt notification of their switch to that service.
4. CILCO's ISS tariff should allow ISS customers to remain on ISS for a minimum of two billing cycles, rather than 45 days.
5. The provision that allows CILCO to prevent customers from taking ISS should be deleted. Likewise, the provision that allows CILCO to refuse to provide bundled service to customers whose initial ISS term has expired should also be deleted.

6. Most, if not all, delivery services-related contracts should be available on utility web sites. Utilities should describe their contract processing procedures in tariffs or in their Implementation Plans.
7. All the information that suppliers need to create a power and energy offer that is reasonably available to the utility should be accessible in real-time through utility web sites.
8. Suppliers should not be required to place charges for a customer's past service on their single bills. Utilities should apply funds acquired through single billing to delivery charges only.
9. Staff does not recommend that utilities that do not offer a non-firm Power Purchase Option ("PPO") service be required to offer that service.

Q. How is your testimony organized?

A. The subject headings and questions used in the Appendix to the Interim Order are listed, followed by my discussion of the questions. The Question numbers used in my testimony are the numbers of the questions listed in the Appendix.

Transition Charge Tariff Issues (Question 2)

2. How and where is the class of customers with individual CTCs defined?

Q. Please discuss Question (2).

A. My understanding is that Section 16-108(g) provides that utilities that charge transition fees must make individual transition charge calculations (i.e., calculations made using individual customer data rather than information that pertains to the customer's rate class) for customers whose electric demand exceeds a certain megawatt level. For ComEd, that level is three megawatts and for Illinois Power ("IP") and AmerenCIPS, the other two other utilities that are presently charging transition charges, the level is one megawatt. Additionally, IP provides individual calculations for all customers whose demand is greater than 100 kilowatts.

It appears that the issue in Question (2) is whether the utilities' tariffs identify when a customer is entitled to an individual calculation of its transition charge. My review of the tariffs of the utilities presently charging transition charges is that ComEd's and IP's transition charge tariffs state the circumstances in which a customer is entitled to an individual calculation. I have comments about AmerenCIPS' "Rider TC - Transition Charge" tariff, however.

Subsection (a) of a section of Ameren's Rider TC tariff called "Administration" describes the circumstances in which AmerenCIPS's customers will or will not receive an individual transition charge calculation. This subsection is entitled "Calculation by Classes of Customers," a title that does not indicate to the reader that the subsection describes individual transition charge calculations. For clarity purposes, I recommend that this subsection be more descriptively labeled.

Subsection (a) appears to provide that AmerenCIPS's customers are not entitled to an individual calculation unless those customers have accumulated three years of usage history:

As required by Section 16-108(g) of the Act, the calculation of TC will be done on a customer-specific basis for any retail customer that has an average monthly maximum electrical demand on the Company system of one (1) megawatt (MW) or more … provided that the customer meets the three year usage data requirement of that section…

However, my understanding of Section 16-118(g) is that customers who do not have three years of usage history can nevertheless receive, at least in some circumstances, an individual transition charge calculation. AmerenCIPS' Rider TC should be modified to identify the circumstances in which a 1.0 megawatt customer can receive an individual transition charge calculation.

Finally, my understanding is that customers who were taking service under "special contracts" are also entitled to individual transition charge calculations. AmerenCIPS' tariff should provide for that possibility also.

Default Service (Questions 1 and 2)

1. What are the basic terms and conditions of default service?
2. Under what conditions are customers eligible for Default Service?

Q. Please discuss Default Service, now called "Interim Supply Service" (see Interim Order, p. 5).

A. Interim Supply Service is a market-based rate service option that is available to customers who have lost their source of supply. Each utility presently has a Default Service / ISS tariff on file with the Commission, although the price, terms and conditions of each default service tariff vary from utility to utility.

The most typical circumstance in which a customer might lose its source of supply occurs when (in the utility's judgement) a supplier suddenly, and permanently, has stopped providing power and energy to the utility's delivery system on behalf of the supplier's customers. Another situation in which a delivery services customer might be left without a source of supply would occur if the customer's contract with a supplier terminates, and the customer has not acquired a new supplier. Another way a customer might lose its source of supply would occur if the customer's contract with its supplier is unexpectedly terminated by the supplier, perhaps because of the customer's failure to meet the terms of the contract. While these examples might be differentiated by examining why the customer lost its source of supply (e.g., in the second example, the reason that the customer lost its supply source was because of the customer's inaction), the examples can be analyzed in the same way because their effects on the utility's system are identical. In each case, if a delivery services customer has no supplier, the customer will be consuming power and energy provided by the utility until the customer is physically disconnected from the utility's system.

Q. What occurs when a customer has been placed on Interim Supply Service?

A. Once a customer has been placed on ISS, it needs to line up a new source of supply. This will not happen immediately, as the customer will need some amount of time to (1) be notified that it has lost its supplier (and that it now may be paying a higher rate than it was paying to its former supplier); (2) choose a new supply option (e.g., choose a new supplier or return to utility service); and, (3) comply with the Direct Access Service Request ("DASR") switching rules.

Q. Please now discuss the two questions relating to Default Service. Please first discuss Question (2), "Under what conditions are customers eligible for Default Service?

A. A customer should be eligible for Default Service if (1) the customer is a delivery services customer and (2) the customer has lost its source of supply. The most typical circumstances in which this might occur are discussed above.

Q. Please now discuss Question (1), " What are the basic terms and conditions of default service?"

A. One issue related to the terms and conditions of ISS service is the length of time a customer placed on the service would be eligible to remain on the service. While the utilities' tariffs are largely uniform in this respect, improvements are possible. Most utilities allow customers to remain on ISS for at least two billing cycles. However, CILCO's tariff states that customers may remain on ISS for only 45 days (ILL. C.C. No. 9 - Electric, Original Sheet No. 94). After 45 days, CILCO's tariff allows CILCO to (a) place the customer on bundled service; (b) place the customer on ISS for another 45-day term; or, (c) if bundled service has been declared competitive, place the customer on ISS for an additional 45-day term, or disconnect the customer. I recommend that CILCO change the 45-day requirement to two billing cycles.

Q. Please explain this recommendation.

A. Given the DASR requirements that switches occur primarily on a customer's meter reading date, it appears that it is possible that a customer could remain on ISS for fewer than 45 days. For example, suppose a customer's regularly scheduled switch date is the 15th of the month, and, further, that the customer is placed on ISS on the 29th of June. Also suppose that the customer does not make a supply choice in time to switch on July 15th, the next scheduled meter reading date. In this instance, is not clear to me how the 45 day requirement would be applied. More than 45 days would pass if the customer were to switch on the 15th of August.

Would the customer be taken off ISS after 45 days and placed on bundled service? Would it be allowed to switch on August 15th? This is not clear; if it is not clear to me, then I believe it would also not be clear to customers, or to the Commission Staff responsible for answering customer questions about utility tariffs. My recommendation is to change the 45-day requirement to a requirement that customers are entitled to remain on ISS for at least two billing cycles.

Q. Are there other advantages to this recommendation?

A. Yes. If this recommendation were approved by the Commission, all utilities would allow ISS customers to remain on ISS for a minimum of two billing cycles. Uniformity among tariffs would make it easier for the Commission to explain to customers the consequences of being placed on ISS.

Q. Do you have any objection to a utility provision that allows customers to remain on ISS for more than two billing cycles?

A. No. However, it is important that the tariffs state that a customer may remain on ISS for at least two billing cycles.

Q. Do you have any other comments about CILCO's Default Service / ISS Tariff?

A. Yes. CILCO's tariff allows CILCO to deny customers the option to take Default Service / ISS if it believes that placing a customer on this service would jeopardize system reliability. In the event a customer is denied ISS, the customer would be disconnected. (ILL. C.C. No. 9 -

Electric, Original Sheet No. 92). The policy is very troublesome. If the policy were allowed to continue, CILCO, or any other utility with a similar policy, could begin to apprise their customers, under the guise of "customer information", that customers who lose their suppliers might be disconnected. Some customers might interpret this information as a warning that taking delivery services might jeopardize their electric service. Thus, I recommend that this part of CILCO's ISS tariff be deleted. Likewise, I recommend deletion of the provision that would allow CILCO to disconnect a customer whose initial ISS term has expired. In this case, I believe that the customer should be placed on bundled service.

Q. Do you have any other comments about Default Service / ISS?

A. Yes. Each utility's tariff should state that the utility will promptly provide notification to Default Service customers of their switch to that service. The tariffs should identify the time frame in which notification will occur.

Customer / Supplier Tariff (Questions 1, 2, 3, 4, 5, 15)

1. What standard definitions should be included in delivery services tariffs?

Q. Please discuss Question (1).

A. A review of each utility's Customer Tariff and Supplier Tariff reveals that the terms used to describe the service provided by utilities to effect the delivery of RES-owned power and energy to retail customers vary significantly among the tariffs. The extent to which unfamiliar terms are defined also varies significantly. IP, for example, defines about 40 terms, the Alliant companies and MidAmerican about 15-20 terms, while the other utilities define less than 10. ComEd does not explicitly define any terms in either its Customer Tariff or Supplier Tariff. Moreover, the placement of the definition section within the set of utility tariffs varies as well. The Customer and Supplier Tariffs of most utilities contain a definition section; ComEd places its definition section within the "Terms and Conditions" section of its Schedule of Rates, not, as just noted, within the Customer and Supplier tariffs. Finally, the definitions themselves vary somewhat, also.

Q. Do you have an opinion about why there appears to be so much variation between the tariffs with respect to definitions?

A. Part of the reason seems to be that some utilities describe certain procedures, such as customer switching procedures, primarily in their Implementation Plans rather than in their tariffs. ComEd's Implementation Plan, for example, is quite detailed, and contains an extensive "glossary" of terms.

Q. Do you have any recommendations about specific terms that ought to be defined in the Customer and Supplier tariffs?

A. Yes. First, as Mr. Lazare's testimony explains, the Customer and Supplier tariffs of each utility should contain a "Definitions" section, in which the terms used in delivery services tariffs are defined. Second, the terms that should be defined are each of the terms that a customer reading the tariffs might find to be unfamiliar or confusing. Third, regarding the definitions themselves, it is difficult to understand why each utility should use different definitions to describe the same terms. Staff would be open to meeting with the parties to discuss common definitions.

2. Is there a term requirement for delivery service? If so, what is the term requirement?

Q. Please discuss Question (2).

A. The question asks whether customers who switch to delivery services should be obligated to stay on delivery services for a defined term. Put another way, the question asks whether delivery services customers should be permitted to switch back to bundled service prior to the expiration of the initial term. However, a delivery services customer who is purchasing power from a supplier would be permitted to switch to Power Purchase Option service, because PPO customers are also taking delivery services as part of that service. I should add that customers returning to bundled service are typically subject to a notice requirement (see Interim Order, p. 6).

My reading of the delivery services tariffs is that Alliant, Ameren, IP, MidAmerican and Mt. Carmel do not require an initial term. ComEd's tariffs appear to require a 24 month initial term, although my understanding of ComEd's tariff is that, unless a customer is taking PPO service, a customer may return to ComEd's bundled service prior to the expiration of the 24 month term. I have no objection to the absence of a term requirement provision in the delivery services tariffs of these utilities. Allowing customers to return relatively quickly to bundled service would tend to reassure customers thinking of taking delivery services that they will have the option to return to bundled service, should their experience with delivery services prove to be unsatisfactory.

CILCO appears to require delivery services customers to remain on delivery services for 12 months. I recommend that CILCO be required to allow customers to return to bundled service prior to the 12 months expiration of the delivery services term, subject to the notice requirements described in the Interim Order.

3. What contracts must customers sign to take delivery services?

Q. Please discuss Question 3.

A. Utilities may require delivery services customers to sign a variety of contracts. These contracts might include delivery services contracts, contracts for customers with individual transition charge calculations, customers taking partial requirements service, PPO contracts, contracts for customers with optional facilities, and perhaps other contracts, as well.

I have a few comments about delivery services-related contracts. First, it is essential that the contracts that customers (or their agents) may be required to sign to take delivery services be publicly available, preferably on utility web sites. My understanding is that the utilities do not object to posting on their web sites the contracts that delivery services customers typically must sign, although I understand that there may be a limited set of circumstances in which a utility might reasonably prefer to create contracts that are tailored to individual customers' needs. Second, the procedures for processing contracts submitted by customers, including notification that submitted contracts have been approved, should be as efficient as possible, since any delay in processing contracts could result in delays in switches to delivery services, or perhaps denial of delivery services. I do not have specific timetables in mind by which the contract approval process should occur, but I would recommend that utilities commit to processing contracts promptly. I also recommend that the utilities describe, either in their delivery services tariffs or their Implementation Plans, their contract approval processes. Such descriptions would include, but not be limited to, the identification of the contracts that must be signed and to whom the contracts must be submitted. Third, since many, or perhaps most, delivery services customers employ agents (who typically, but not always, are RESs) to act on their customers' behalf, it is essential that utilities clearly identify the circumstances in which an agent's signature on contracts would be accepted as valid.

Q. Do you have any specific comments about delivery services-related contracts?

A. Yes. Utilities generally do not require customers to sign delivery services contracts if they are purchasing power from a supplier, unless they are either a large customer and/or are receiving an individual transition calculation. I certainly have no objection to the lack of a requirement obligating customers to sign contracts as a condition of taking delivery services.

However, my reading of individual utility tariffs indicates that ComEd and MidAmerican require non-PPO delivery services customers with demands that exceed 500 kW to sign contracts. I have no objection to these requirements, but only to the extent that bundled customers of that size have similar requirements. A provision in Ameren's tariffs appear to give Ameren the option to determine when it may require contracts, and my understanding is that Ameren will remove this provision.

4. Through what procedures should customers and suppliers be able to acquire customer-specific information? What specific information should be available?

5. Should there be a uniform electronic means to obtain customer information?

Other Tariff Issues

7. What is the availability, to customers and their representatives, of information on a utility's web sites to current tariffs and other information necessary to compute a customer's delivery services bill?

Q. Please discuss issues related to customer and supplier access to customer information.

A. As I discuss Questions (4) and (5), I will also discuss Question (7) listed under "Other Tariff Issues".

Q. Please discuss whether information ought to be provided electronically.

A. First, I will note that suppliers consider customer information essential to crafting power and energy offers for individual customers. Generally speaking, a supplier will not consider making an offer to an individual customer unless the supplier has knowledge of such basic information as the customer's historical usage pattern, as well as the customer's rate class and other factors that have an impact on the customer's bill. I would add that, the more quickly and efficiently that suppliers can obtain the information they need to create an offer to customers, the lower each supplier's customer acquisition costs, and thus the greater the chances for the development of a competitive market.

Undoubtedly, the most efficient means for providing information is electronic. The only question is whether authorized suppliers should have "real-time" access to customer information provided over the Internet or some other electronic means, or whether suppliers should have to request the information from the utility.

Q. Should suppliers have real-time access to customer information?

A. Yes, although I would not want to preclude the possibility that, in some limited number of cases, the volume of requested information regarding an individual customer might be so immense as to make it more practical for the utility to send the information on a computer disc over e-mail or the U.S. mail. With these limited exceptions, the general rule should be that suppliers ought to have real-time access to customer information via utility web sites. It is my understanding that the utilities not currently providing such access will describe in the direct phase of this case their plans for building the capability to allow suppliers access to customer information.

Q. Should all utilities provide real-time access to customer information via their web sites?

A. With the exception of Mt. Carmel, which has received an exemption from uniformity requirements, and the Alliant companies, all utilities should provide real-time access to customer information through their web sites. I do not mean to imply that Alliant should not consider eventually building the capability to allow supplier access to customer information. Given its small customer base, I do not think it would be important, at least at the present time, for Alliant to build the web site capability in the near future. However, Alliant should agree to respond promptly to supplier requests for customer information. Alliant should also recognize that, should competitive conditions change in the Alliant area, the Commission could require the Alliant companies to upgrade their web site capabilities.

Q. What information should be provided electronically?

A. As a general rule, the information that should be provided electronically is the information reasonably available to utilities that suppliers need to create power and energy deals for individual customers. Again, my understanding is that utilities will identify in their respective direct testimonies the information that will be made available.

15. At what level of demand is metering required to take delivery services?

Q. Please discuss Question (15).

A. Staff does not object, at the present time, to the provisions in the utility's tariffs concerning this question.

Terms and Conditions of the Single Billing Tariff (Questions 5 and 6)

5. Must RESs include unpaid balances for bundled service on single bills?
6. What should be the posting order of single billing remittances (e.g., oldest balance first)?

Q. Please discuss single billing.

A. Single billing can be described as the bundling, in one bill, of the charges for delivery services provided by the delivery services utility with the bill for the power and energy sold by the supplier. All utilities have a single billing tariff on file enabling suppliers to elect single billing. These tariffs were approved by the Commission in last year's delivery services tariffs dockets.

Q. Please discuss Questions (5) and (6).

A. My understanding is that the answers to Questions (5) and (6) depend on the interpretation of the section of the Public Utilities Act that governs single billing, Sec. 16-118(b). However, I can provide some background about these questions.

The questions concern how money remitted by a single-billing supplier is applied to a customer's account on behalf of a customer who switches suppliers while owing the utility money for past services. While this circumstance could arise in a variety of situations, it is easiest to consider the situation in which a bundled service customer switches to delivery services at the time the customer has an outstanding balance due on its account for the customer's receipt of bundled services.

Q. Do a significant number of customers switch suppliers while owing money to the utility?

A. This question can be addressed with historical information about the percentage of customers who do not pay their bills within the time frame specified by Part 280 of the Commission rules, which is 14 days for non-residential customers. My understanding is that, depending on the customer class and the utility, some 5-10% of customers do not pay their bills within 14 days. However, this percentage could be higher, depending on whether the utility's billing system sends bills promptly and with the correct information.

Q. Please provide a brief example to help illustrate the issues identified in Questions (5) and (6).

A. Suppose that a bundled customer is eligible for delivery services, and decides to switch to Supplier A, a supplier that offers single billing. Suppose that the switch occurs on April 1. On that date, the utility reads the customer's meter, and a few days later, calculates the customer's final bill for the month ending April 1. This bill is sent to the customer, but remains unpaid after 30 days. On May 1st, after the customer has been receiving power and energy service from Supplier A for one month, and delivery services from the utility for that period, the utility reads the customer's meter. Soon thereafter, the utility calculates a bill for one month of delivery services, and sends a bill to Supplier A. If the utility believes that it is allowed to place all of the customer's charges on its bill, the bill will include the charges for the unpaid bundled amount as well as the charges for delivery services.

Now, Question (5) can be examined. Question (5) asks whether the single bill that the supplier sends to the customer must include both bundled charges and delivery charges.

Continuing with the example, suppose that Supplier A sends a single bill to the customer, and that the customer submits a payment to Supplier A. Suppose that this payment does not cover the sum of (a) the supplier's power and energy charges, (b) the charges for delivery services, and (c) the charges for the unpaid bundled services. In other words, the customer has made a "partial payment". Now, turn to Question (6), which asks how payments received by the utility are credited to the customer's account. That is, Question (6) asks whether money received by the utility through single billing is applied to (i.e., "posted" to) the charges for bundled service (i.e., the "oldest balance") or to delivery services ("i.e., the "newest balance"). I would add that the "oldest balance" may not necessarily mean the charges for a customer's electric service. If a customer takes other services from a utility, such as gas service and/or water service, the "oldest balance" may refer to the "oldest unpaid bill for any tariffed service provided by the utility".

Q. How do utilities currently post payments received through single billing?

A. My understanding is that most, or all, utilities post payments to the oldest balance first. Since only a few utilities actually have delivery services customers, the question is hypothetical for some utilities.

Q. Does Staff have an opinion about Questions (5) and (6)?

A.. Yes. It is Staff's position that Sec. 16-118(b) refers to the payment of charges for the provision of delivery services only, rather than to payment for charges for any other services rendered by the utility to the customer, such as bundled electric services or non-electric services. Thus, with regard to Question (6), it is my understanding that money remitted to a utility through single billing should be applied against the utility's delivery services charges only. If a utility is allowed only to apply single billing remittances to delivery services charges, it stands to reason that it should not be allowed to require RESs to include charges for the customer's bundled service on the RES's single bill. Hence, the answer to Question (5) is "No."

Q. If a utility cannot require a RES to include charges for bundled service on the RES's single bill, would a utility be able to notify a customer that the customer owes money for bundled service?

A. Yes. My understanding is that, even though a customer has switched from bundled service to delivery services, the utility maintains the right to seek payment for its bundled service by sending a bill to the customer for the outstanding bundled charges.

Q. Where should the utility credit the payment received from the customer in response to the utility's request for payment for its bundled services?

A. Any funds received by the utility for the provision of bundled services should be credited against the amount owed for bundled service.

Q. Are you aware whether the utilities' billing systems have the capability to separate bundled service charges from delivery services charges?

A. My understanding is that the billing systems of some, or perhaps, most, of the utilities do not currently have the electronic capability to keep bundled services charges, and the payments applied to those charges, separate from a customer's delivery service charges. If the Commission agrees that the utilities' present single billing payment posting practices are erroneous, then the utilities will have to change their present practices.

Q. Do you have any other comments about the single billing questions at issue?

A. The utilities' present single billing procedures, as I understand them, greatly diminish the value of single billing. Under the present procedures, it appears that a supplier could be obligated to collect and remit funds for services received by a customer prior to the time the supplier began serving the customer.

PPO Tariff (Questions 1 and 2)

1. Should non-firm or curtailable service be offered to PPO customers? If so, what are the terms and conditions of the non-firm or curtailable service that is offered to PPO customers?

2. What are the restrictions on the availability of the PPO tariff?

Q. Please discuss Question (1).

A.. It is evident that customers taking a non-firm (i.e., curtailable or interruptible) generation service would benefit from the offering of a non-firm PPO service. However, Staff does not recommend that all utilities must create a non-firm PPO service offering.

Q. Please discuss Question (2).

A. My understanding of the main restriction on the availability of the PPO tariff primarily has to do with whether customers whose transition charges are zero, or fall to zero, are eligible for the PPO. My understanding is that this issue, and perhaps related issues, are being debated in the "market value" docket, Docket Nos. 00-0259, 00-0395 and 00-0461 (Cons.). Thus, I will offer no comment in this proceeding about Question (2).

Q. Does this conclude your direct testimony?

A. Yes.